

**R.I. DEPARTMENT OF ELEMENTARY  
AND SECONDARY EDUCATION**

**AUDIT OF SCHOOL HOUSING POLICIES  
AND PROCEDURES**

**FISCAL YEAR ENDED JUNE 30, 2000**

**DEPARTMENT OF ADMINISTRATION  
BUREAU OF AUDITS  
ONE CAPITOL HILL  
PROVIDENCE, RI 02908-5889**



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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R.I. DEPARTMENT OF ELEMENTARY  
AND SECONDARY EDUCATION  
AUDIT OF SCHOOL HOUSING POLICIES AND PROCEDURES  
FISCAL YEAR ENDED JUNE 30, 2000

EXECUTIVE SUMMARY

Our audit of the R.I. Department of Education's School Housing Aid Policies and Procedures for the fiscal year ended June 30, 2000 disclosed the following:

- ❑ The School Housing Aid formula prescribed by the Board of Regents regulations differs from the formula prescribed by state statute;
- ❑ The Board of Regents and the management at RIDE must immediately submit a technical amendment to correct any ambiguity that may continue to result in an application of the formula under an alternative reading to the RIDE interpretation of the statute;
- ❑ Written procedures are needed to document the School Housing Aid process; and
- ❑ Internal review procedures should be developed to validate the accuracy of data calculations.

R.I. DEPARTMENT OF ELEMENTARY  
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AUDIT OF SCHOOL HOUSING POLICIES AND PROCEDURES  
FISCAL YEAR ENDED JUNE 30, 2000

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January 5, 2001

Mr. Peter McWalters, Commissioner  
R.I. Department of Elementary and Secondary Education  
255 Westminster Street  
Providence, RI 02903

Dear Commissioner McWalters:

We have completed an audit of the policies and procedures used by the R.I. Department of Elementary and Secondary Education to calculate School Housing Aid for the fiscal year ended June 30, 2000. Our audit was conducted in accordance with Sections 35-7-3 and 35-7-4 of the Rhode Island General Laws.

The findings and recommendations included herein have been discussed with management and we have considered their comments in the preparation of this report. Management's responses to our recommendations have also been included in this report.

In accordance with Section 35-7-4 of the General Laws, we will review the status of the R.I. Department of Elementary and Secondary Education's corrective action plan within 6 months from the date of issue of this report.

Sincerely,

Stephen M. Cooper, CFE, CGFM  
Chief, Bureau of Audits

SMC:pb

R.I. DEPARTMENT OF ELEMENTARY  
AND SECONDARY EDUCATION  
AUDIT OF SCHOOL HOUSING POLICIES AND PROCEDURES  
FISCAL YEAR ENDED JUNE 30, 2000

INTRODUCTION

Objectives, Scope, and Methodology

The purpose of our audit was to determine whether the policies and procedures used by the R.I. Department of Elementary and Secondary Education (RIDE) to calculate School Housing Aid reimbursements were in compliance with Title 16, Chapter 7 of the Rhode Island General Laws (RIGL).

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and included such tests as we considered necessary to evaluate the effectiveness of management's policies and procedures.

The findings and recommendations included in this report were based upon our:

- ❑ Review and analysis of state laws and procedures;
- ❑ Interviews with RIDE personnel to gain an understanding of the procedures used to determine the various components of the School Housing Aid formula;
- ❑ Tests of the effectiveness of policies and procedures followed to determine compliance with applicable laws, regulations, and procedures; and
- ❑ Tests of School Housing Aid computations and amounts determined as reimbursement.

Background

Chapter 16, Title 7 of the Rhode Island General Laws Sections 35 to 47 (16-7-35 to 16-7-47), are designed to (a) guarantee adequate school housing for all public school children in the state, and (b) to prevent the cost of school housing from interfering with the effective operation of the schools.

The state provides local districts with partial reimbursement for school construction projects through the School Housing Aid fund, also known as Construction Aid. The Commissioner and the Board of Regents review and certify the need for the local community's request, which qualifies the projects for reimbursement under the program. The program reimburses school districts for expenditures after the project is completed.

The reimbursement rate is based on the cost of the project over the life of the bonds issued for the projects. The housing aid share ratio calculation is similar to the operations aid share ratio calculation (i.e., based on a district's wealth compared to the aggregate state wealth). For this program, however, the minimum share for each district is 30 percent. Although the reimbursement reference for completed projects is one year, there is a two-year reference for formula factors. For example, the FY 2000 allocations are based on 1998 wealth and enrollment levels. Reimbursement is based on total expended project cost, not on the amount of the original bond issuance.

Bonuses of 4 percent are given for projects that demonstrate that at least 75 percent of their costs are for energy conservation, asbestos removal, and/or handicapped access. Regional districts receive a 2 percent bonus for each regionalized grade for new construction projects and an additional 4 percent bonus for renovation projects. The calculation also includes a debt service adjustment for heavily burdened districts.

#### Significant Legislative Revisions

Prior to FY 1998 only projects supported by general obligation bonds were reimbursable under the school housing aid program. In 1997 the General Assembly passed legislation to qualify projects supported by three additional financing mechanisms -- lease revenue bonds, capital leases, and capital reserve funds. The expansion of qualified projects has contributed to the growth of this program.

The comparative school housing aid summary included as Appendix C of this report provides detailed reimbursements by school district for the fiscal years 1995 through 1999.

R.I. DEPARTMENT OF ELEMENTARY  
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AUDIT OF SCHOOL HOUSING POLICIES AND PROCEDURES  
FISCAL YEAR ENDED JUNE 30, 2000

FINDINGS AND RECOMMENDATIONS

School Housing Aid Ratio

We reviewed the policies and procedures used by the R.I. Department of Elementary and Secondary Education (RIDE) to compute School Housing Aid to municipalities. As part of our audit procedures, we recomputed the School Housing Aid computations and compared them to amounts determined by RIDE. The results indicated that the amounts computed by RIDE agreed with the formula as prescribed in the appendix of the *Regulations of the Board of Regents on School Housing Aid*.

In addition to the above procedure, we compared the formula used by RIDE to the formula prescribed by statute (RIGL §16-7-39 (2)). As a result, we discovered that the formula prescribed by statute differed from the formula used to calculate Housing

Formula A	Formula B
$S = 1.0 - \left[ .62 \left( \frac{\frac{ewav}{radm}}{\frac{EWAV}{RADM}} \right) \right] X \text{ Cost}$	$S = \left( 1.0 - .62 \right) x \left( \frac{\frac{ewav}{radm}}{\frac{EWAV}{RADM}} \right) X \text{ Cost}$

Aid payments. Depicted in the illustration above, Formula **A** is prescribed by Regents regulations and is used by RIDE and Formula **B** is prescribed by statute.

The difference between the two formulas can be attributed to the placement of a single element within the formula that is used to multiply the district/state ratio to determine the ratio to be applied to school housing costs. RIGL §16-7-39 (2) states

"...the resultant ratio is multiplied by the difference between one hundred percent (100%) and a factor currently set at sixty-two percent (62%)" i.e., 38%. Formula **A**, which is used by RIDE, does not multiply the district/state ratio by the difference between 100% and 62% as required by statute.

#### Recommendation

1. The Board of Regents and the management at RIDE must immediately submit a technical amendment to correct any ambiguity that may continue to result in an application of the formula under an alternative reading to the RIDE interpretation of the statute.

#### Monitoring and Oversight

RIDE's Finance Office has only one employee that is responsible for, monitoring, reviewing, imputing data, and preparing all reports that are required for the determination of school housing aid. Our review of this process disclosed there to be a lack of written procedures to document the steps that are followed upon receipt of this data. As a consequence, in the absence of the employee who normally performs these duties, the housing aid process may not be sufficiently understood to be performed properly by another employee.

We also noted that there is no required review performed to validate the data compiled or the calculations by anyone other than the employee who is primarily responsible for them. As a result, if errors were made, they would go undetected.

#### Recommendations

2. Develop written procedures that document the School Housing Aid process.
3. Internal review procedures should be developed to validate the accuracy of data calculations.



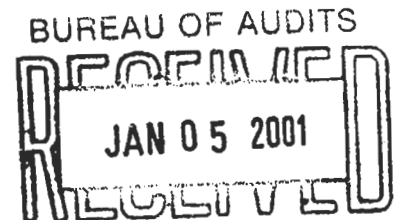


State of Rhode Island and Providence Plantations  
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Peter McWalters  
Commissioner

January 5, 2001

Stephen M. Cooper  
Department of Administration  
Bureau of Audits  
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*Re: Audit of School Housing Policies and Procedures:  
Departmental Response*

Dear Mr. Cooper:

Below are the Department's responses to the Bureau of Audit recommendations.

Recommendation #1:

The Board of Regents and the management at RIDE must immediately submit a technical amendment to correct any ambiguity that may continue to result in an application of the formula under an alternative reading to the RIDE interpretation of the statute.

Departmental Response:

**Agree.** The state aid programs for both operations and construction were adopted in 1960 as twin programs consistent in both principle and operation. In 1967, school aid for operations computation was amended to consider the "wealth factor" by including an adjustment for community median family income. The school housing aid formula enacted in 1982 was intended to make the reimbursement program more responsive to the needs of poor school districts and align it with the formula used for school operation aid. RIDE implemented the housing aid formula to be consistent with the operations aid formula, that is, to provide more aid to the poorer communities. The technical language of RIGL 16-7-39, however, can be interpreted to produce a formula that would operate in the exact opposite manner of the legislative intent. The housing aid formula has been implemented by RIDE consistently since 1982 and provides a greater proportion of housing aid reimbursement to needier districts. The Board of Regents and the Department of Education will be submitting a technical amendment to RIGL 16-7-39 during the next session of the General Assembly (Appendix A of Audit Report).

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Stephen M. Cooper  
Department of Administration  
Bureau of Audits  
January 5, 2001  
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Recommendation #2:

Develop written procedures that document the School Housing Aid process.

Departmental Response:

**Agree.** In addition to current regulations and guidelines, operational procedures will be formally documented in writing for the school housing aid process.

Recommendation #3:

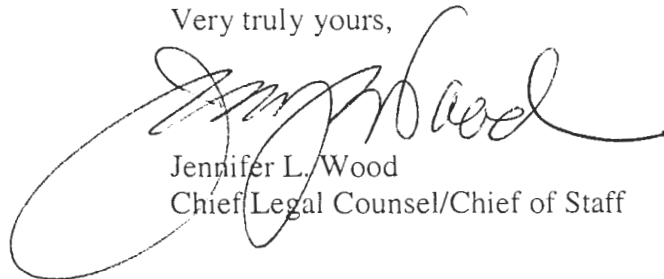
Internal review procedures should be developed to validate the accuracy of data calculations.

Departmental Response:

**Agree.** The Department will make every effort to address this recommendation and internal review procedures will be developed.

Thank you for the opportunity to respond to the recommendations.

Very truly yours,

A handwritten signature in black ink, appearing to read "Jennifer L. Wood", is written over the typed name and title.

Jennifer L. Wood  
Chief Legal Counsel/Chief of Staff

JLW/CB/sdk

R.I. DEPARTMENT OF ELEMENTARY  
AND SECONDARY EDUCATION'S PROPOSED TECHNICAL  
AMENDMENT TO RIGL 16-7-39

**CHAPTER 16-7**  
**Foundation Level School Support**

**§ 16-7-39 Computation of school housing aid ratio.** - For each community, the percent of state aid for school housing costs shall be computed in the following manner:

- (1) For projects approved prior to July 1, 1981: from (i) the number of resident pupils in average daily membership in grades one through twelve (12) for the state fiscal year next preceding that in which aid is to be paid multiplied by three hundred and fifty dollars (\$350), deduct (ii) the yield of thirteen dollars and twenty-eight cents (\$13.28) tax per thousand dollars of equalized weighted assessed valuation, and (iii) the ratio that the resultant figure bears to the computation in (i) shall be the school housing aid ratio; provided, however, that in no case shall the ratio be less than thirty percent (30%) each year.
- (2) For projects approved after July 1, 1981, the school housing share ratio shall be calculated in the following manner: (i) the adjusted equalized weighted assessed valuation for the district is divided by the resident average daily membership for the district (grades twelve (12) and below); (ii) the adjusted equalized weighted assessed valuation for the state is divided by the resident average daily membership for the state (grades twelve (12) and below); (i) is then divided by (ii) and the resultant ratio is multiplied by ~~the difference between one hundred percent (100%) and~~ a factor currently set at sixty-two percent (62%) which represents the approximate average district share of school support ÷. The resulting product is then subtracted from one to yield the housing aid share ratio provided that in no case shall the ratio be less than thirty percent (30%). The resident average daily membership shall be determined in accordance with § 16-7-22(a).